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Mid-Quarter Update

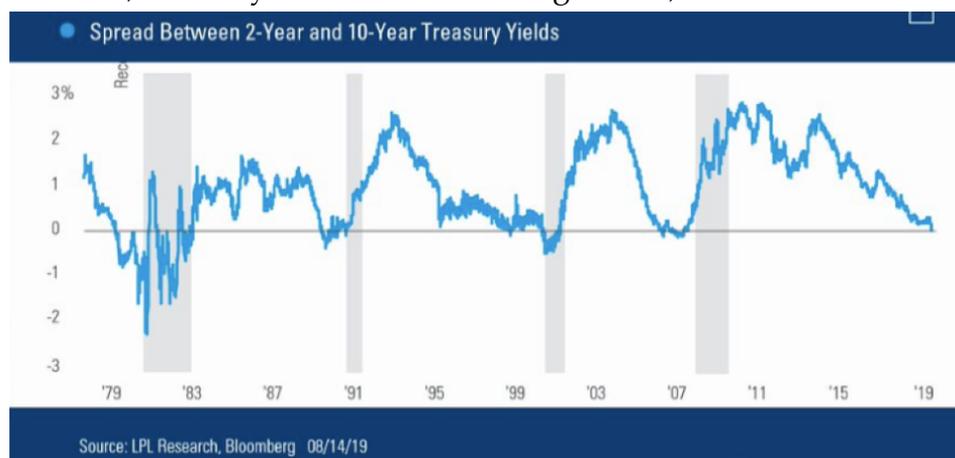
Trade Wars, Fed Cuts, Inverted Yield Curves

By Keith Burbank

As has been the case for much of 2019, trade wars and fed actions once again have dominated the headlines for the last six weeks.

In late June, the US announced that negotiations with China on a new trade deal would proceed without any new tariffs by either side. By late July the US changed course and announced 10% tariffs that would go into effect on September 1st. This announcement was followed by a retaliatory action from China who devalued their currency and stopped imports of US agriculture products. Investors responded by selling equities as the US markets sold off by over 5% during the first weeks of August, and then bounced back slightly after it was announced that tariffs on some technology products would be delayed, giving stocks such as Apple a boost.

The escalation of the ongoing trade war followed the long anticipated July Fed meeting. As expected, the Federal Funds rate was cut by .25 basis points. This was the first rate cut by the Fed in 10 years. The Fed reasoning for the cut mentioned downside risks of slowing global growth and trade uncertainty, and to promote a faster return of inflation to 2%. In a nutshell, The Fed feels that cutting interest rates is a low-cost insurance policy against any worsening of conditions down the road. It does not believe that rate cuts are needed today to keep the expansion going. So the big question that remains is, will they cut further? As of right now, most investors are hoping on yes.



If tariffs and rate cuts were not enough to deal with over the last 6 weeks, we are also now facing the dreaded inverted yield curve. The 10-year yield fell below the 2 year yield for the first time since 2005. This inversion is typically seen as a sign of economic weakness, although with a relatively long lead time as the US economy has peaked an average of 21 months after the inversion in the previous 5 economic expansions when this occurred. Additionally, stocks have historically rallied an average of 22% from the first inversion to the economic peak. - Continued on pg. 2

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At this point the US economy still appears to be on solid ground. The inversion may be a signal to the Fed that monetary policy is still too tight and more rate cuts are needed. Globally low rates in fixed income have led to even more buying of US treasuries which has helped drive yields lower, which may help explain the inversion being more technically driven instead of being driven by domestic economic weakness.

Despite all the turmoil, at this point there is not much evidence to believe the current economic expansion will end anytime soon. That being said, the risk in the markets seems to have been heightened and the more volatile conditions we have endured for the last year look to remain for the near term.

Special Needs Trusts

By James G. Steproe, J.D. - Director of Administration



Special Needs Trusts (SNTs) are made for the benefit of disabled or mentally ill beneficiaries. These individuals often lack the capacity to manage their own finances. The trust is therefore created with the beneficiary's specific needs in mind, and they are designed to preserve a beneficiary's eligibility for important government benefits.

A trust for a beneficiary with a mental or physical disability may be set up in any of the common law countries, including the United States, and also in other countries that recognize the concept of a "trust". In such jurisdictions, there is often legislation that provides advantages to such trusts in the areas of taxation and state benefits, e.g., in Ireland and the United Kingdom. In the United States of America, such trusts provide advantages in helping beneficiaries qualify for health care coverage under state Medicaid programs, and also for monthly cash payments under the Supplemental Security Income (SSI) program operated by the Social Security Administration.

There are two types of Special Needs Trusts (SNTs), commonly designated as first-party or third-party. To determine which type, you need to look to whose property is funding the trust. If the property originates with the beneficiary, then it is a first-party special needs trust. If the property always belonged to someone else, then it is a third-party.

The Third-party SNTs do not have to be irrevocable in order to preserve the beneficiary's eligibility for means-tested public benefits. However, if the beneficiary can revoke the trust, the assets would be considered an available resource for the purposes of Supplemental Security Income (SSI) and Medicaid.

Perhaps the most important difference between Third-party SNTs and First-party SNTs is what happens upon the death of the beneficiary. In that case, Third-party SNTs are not required to use the remaining assets to reimburse any state(s) for the Medicaid benefits received by the beneficiary.

First-party SNTs are most often used when a disabled person inherits money or property outright or receives a court settlement. It is also used when a person becomes disabled and thereafter needs to qualify for public benefits that have an income or asset limitation. Until 2016 the only persons authorized to create an individual First-party SNT were the SNT beneficiary's parent, grandparent, legal guardian, or a court. Now federal law authorizes a mentally and legally competent beneficiary to establish an individual First-party SNT. - Continued on pg. 3

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First-party SNTs must provide that all amounts remaining after the beneficiary's death, up to an amount equal to the total lifetime medical assistance benefits paid by the Medicaid program(s) of any state(s) are first repaid to those state Medicaid program(s). If any funds remain after these payments are made, distributions can then be made to any remainder beneficiaries.

Pooled Special Needs Trusts can be used to establish both First-party and Third-party SNTs. They are managed by non-profit organizations. Each beneficiary still has his or her own separate account and his or her own trustee, chosen by the non-profit. These trustees perform the same functions as those who are appointed by the beneficiary's family or by a court. For those having a difficult time finding someone who can serve as a good trustee, a pooled trust may solve the problem.

As in most cases, you do not need an attorney to draft a Special Needs Trust (SNT) document. On the other hand, Lincoln was right, "He who represents himself has a fool for a client". This is one of those cases where being a fool can be quite expensive. The circumstances can be complicated and the opportunity to make a serious error is ever-present. The best thing to do is let an attorney take care of your Special Needs Trust (SNT).